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DE RUEHIN #0181/01 0360459
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FM AIT TAIPEI
TO RUEHC/SECSTATE WASHDC 8086
RUEATRS/DEPT OF TREASURY WASHDC
INFO RUCPDOG/USDOC WASHDC
RUEHBK/AMEMBASSY BANGKOK 4064
RUEHBJ/AMEMBASSY BEIJING 7816
RUEHUL/AMEMBASSY SEOUL 9318
RUEHGP/AMEMBASSY SINGAPORE 7226
RUEHKO/AMEMBASSY TOKYO 9570
RUEHML/AMEMBASSY MANILA 0355
RUEHJA/AMEMBASSY JAKARTA 4261
RUEHKL/AMEMBASSY KUALA LUMPUR 3939
RUEHHI/AMEMBASSY HANOI 3518
RUEHBY/AMEMBASSY CANBERRA 4798
RUEHWL/AMEMBASSY WELLINGTON 2064
RUEHHK/AMCONSUL HONG KONG 9079
RUEHGH/AMCONSUL SHANGHAI 1741
RUEHGZ/AMCONSUL GUANGZHOU 0925

UNCLAS SECTION 01 OF 02 TAIPEI 000181

SIPDIS

SIPDIS

STATE PLEASE PASS USTR
STATE FOR EAP/RSP/TC, EAP/EP
USTR FOR STRATFORD AND BEHAR
USDOC FOR 3132/USFCS/OIO/EAP/WZARIT
TREASURY FOR OASIA/TTYANG AND HAARSAGER
TREASURY ALSO PASS TO FEDERAL RESERVE/BOARD OF
GOVERNORS, SAN FRANCISCO FRB/TERESA CURRAN, AND NEW YORK FRB MARI
BOLIS

E.O. 12958: N/A

TAGS: [EINV](#) [EFIN](#) [ECON](#) [SENV](#) [TW](#)

SUBJECT: Taiwan Moves Aggressively on Insolvent Banks

¶1. SUMMARY. Taiwan continues to move to resolve its insolvent banks. In early February, Taiwan authorities sold the fifth insolvent bank in 13 months and put another into receivership. Taiwan's last troubled bank is still being monitored and may be put into receivership soon. END SUMMARY.

Asia Trust and Investment Corporation (ATIC)

¶2. On January 31, the Financial Supervisory Commission (FSC) ordered the state-owned Central Deposit Insurance Corporation (CDIC) to take over the Asia Trust and Investment Corporation (ATIC) due to insolvency. ATIC's net worth was negative NT\$262 million (US\$8.2 million) as of December 2007. Its capital adequacy ratio was -3.4%, and its non-performing loan (NPL) ratio reached 29%, the highest among all banking institutions in Taiwan.

¶3. CDIC assured that it will provide 100% protection for all deposits at ATIC. The Ministry of Finance (MOF) instructed state-owned banks to put aside NT\$4 billion (US\$125 million) to meet any sudden liquidity demands should there be a run on ATIC. So far, however, there has not been an unusual level of withdrawals from ATIC.

Bowa Bank Sold

¶4. On February 1, Singapore's DBS Bank reached an agreement with CDIC to acquire Bowa Bank, which had been put into receivership in August 2007. CDIC will pay DBS NT\$44.5 billion (US\$1.39 billion) to make up Bowa Bank's liquidity gap.

¶5. As a result of the deal, DBS Bank will expand its Taiwan presence from one to 43 branches and will become the fifth foreign bank to acquire a local bank. This follows Standard Chartered Bank (which acquired Hsinchu International Commercial Bank), Citibank (Bank of Overseas Chinese), ABN AMRO Bank (Business Bank of

Taitung), and HSBC (Chinese Bank).

Last Insolvent Bank Pending Resolution

¶16. ChinFon Commercial Bank (CCB) is the last problem Taiwan bank pending resolution. Although it still has net worth of NT\$1.4 billion (US\$ 43.7 million) as of September 2007, CCB's NPL ratio was 23.7% (December 2007). CCB's capital adequacy ratio (by September 2007) was 1.25%, far less than the 8% minimum requirement.

Insufficient Funding

¶17. Over the last 13 months, the CDIC has sold five insolvent banks (i.e., Chinese Bank, Enterprise Bank of Hualien, Business Bank of Taitung, China United Trust and Investment Co., and Bowa Bank), spending NT\$ 116.28 billion (US\$ 3.6 billion) to do so. This is well in excess of the available reserves of NT\$55 billion (US\$1.7 billion) for this purpose. The funding gap will broaden when ATIC and perhaps CCB are auctioned off later this year.

¶18. CDIC is funding the sales of these banks by borrowings. CDIC plans to repay the loans over time with revenue collected from the 2% gross business receipt tax (GBRT) and deposit insurance premiums. The Banking Bureau estimated that annual revenue from these two sources will amount to NT\$35-40 billion (US\$1.1-1.25 billion).

COMMENT

¶10. Over the last 13 months Taiwan has acted decisively to resolve its insolvent banks. We expect that the CDIC will move over the next few months to sell ATIC and will likely put CCB into receivership. This has driven down Taiwan banks' average NPL ratio

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to a new low of 1.84%

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